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Pakistan

Cotton and Products Annual

Cotton and Products Annual 2016

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Report Highlights:

Pakistan's marketing year 2016/17 cotton production is forecast at 9.0 million 480 lb bales, an improvement over 2015, but low cotton prices are again expected to prompt farmers to reduce input costs, thereby keeping yields and overall production relatively low. Pakistan is again expected to be a significant cotton importer to offset lower production and meet the needs of the textile sector. Imports are forecast at 1.5 million 480 lb bales. Pakistan's biotechnology regulatory system has begun to approve new products for the first time since 2012 and a number of new seed products are available this season.

Commodities:

Cotton

Production:

Pakistan's MY (Aug/Jul) 2016/17 cotton production is forecast at 9.0 million 480 lb bales (11.5 million 170 kg bales or 1.96 million metric tons (MMT)). In light of the significant reduction in the 2015 crop, forecasting the 2016 crop is more an exercise in anticipating farmer behavior than analyzing agronomic factors or considering rolling or olympic averages. Faced with low cotton prices in 2015, farmers opted to limit their use of insecticides to control pink bollworm and white fly; the former a result of late-season clouds and dated biotechnology, the latter a carrier of yield-lowering Leaf Curl Virus. Similarly, because Pakistan's crop is harvested by hand, farmers are able to harvest multiple "pickings" as the season progresses. However, in 2015, farmers opted to reduce the number of pickings, thereby saving on labor costs, and plant their Rabi (winter) wheat crops earlier, which typically results in higher wheat yields because plants are able to establish themselves better prior to the onset of cooler winter weather. For wheat, the rule of thumb is that yields drop one percent per day for every day that planting occurs after November 15. Additionally, the wheat market is supported by a government procurement price that limits downside price risk for farmers.

Looking at cotton futures, it appears that farmers will again face low cotton prices during at least the early stages of the upcoming season. However, cotton is one of Pakistan's three major Kharif (summer) crops and alternate planting options are limited by seed supplies and agronomic factors, i.e. cotton areas may not be suitable for rice and sugarcane's longer growing season does not easily lend itself to crop changes. Cotton area is forecast at 2.7 million hectares, a four percent drop from the official 2015/16 estimate as farmers are expected to shift some area away from cotton, but not a lot.

Yields are expected to suffer from some of the same factors that led to low yields in 2015, chiefly farmer concerns about input costs relative to cotton prices and the potential for farmers to limit their spending on inputs. However, other factors are supportive of better yields such as a 15 percent increase in the supply of certified seeds (though only 40 percent of cotton seeds are certified), adequate fertilizer, and good water supply from irrigation to start the season.

Pakistan primarily produces medium staple cotton. Small quantities of traditional short staple varieties are produced, but volumes are diminishing. Quality continues to be an issue within the industry -- the quality of the picking, the addition of water to seed cotton to boost weight, ginning that results in varying bales sizes, and high levels of foreign matter continue to affect quality. Additionally, farmers often plant multiple varieties as a hedge against poor germination rates. Hence, identifying specific grades or properties from a particular variety is not done.

Status of Bt Cotton:

Pakistani farmers rapidly adopted *Bacillus Thuringiensis* (Bt) cotton when it was first introduced informally during 2002 in the province of Sindh. Bt cotton now accounts for about 95 percent of cotton

area. The technology spread informally until 2010 when the government approved the single event and the private and public sector have produced local varieties with the Bt event since 2010. While Pakistan established a federal biotechnology regulatory authority in 2005, the decision to amend Pakistan's constitution and devolve federal powers to the provinces in 2010 created uncertainty among authorities over which regulators were in charge of approving new events. Consequently, the regulatory system stopped approving new events for both commercial and research use. However, in February 2016, the Ministry of Climate Change determined that the federal government had sufficient authority to regulate the biotechnology sector and resumed receiving applications for new technological events. The decision was timely as a number of approvals for cotton varieties were about to expire. Thus far, the National Biosafety Committee has approved 34 cotton varieties, all with the same technology that has been in Pakistan since 2002. The introduction of newer and more modern cotton events will be tied to passage of the Plant Breeder's Rights act that will establish and intellectual property protection regime for seeds and plants.

Pakistan faces a number of yield-reducing challenges. Cotton Leaf Curl Virus continues to pose a threat and farmers face incursions from pests like White Fly, Mealy Bugs, and Aphids. Additionally, the older Bt technology in Pakistan provides limited resistance to Pink Boll Worm which can affect yields, especially if weather conditions are wet and cloudy prior to harvest. Because the Bt gene is backcrossed multiple times into local cotton varieties to create a stable variety, gene expression can be less than ideal resulting in increased susceptibility to boll worms. Similarly, with over half of the seed uncertified, germination rates are low and farmers must use excess amounts of seed to achieve adequate plant populations, but the unpredictability of germination rates tends to result in reduced plant populations.

Consumption:

MY 2016/17 consumption is forecast to increase marginally to 10.1 million 480 lb bales (12.9 million 170 kg bales or 2.2 MMT). Industry sources are hopeful that recent energy deals will improve the supply of power, reduce power interruptions, and lower the cost of production. The textile sector continues to benefit from the European Union's (EU) late 2013 decision to grant Generalized System of Preferences "Plus" status to Pakistan effective till 2017. The status provides tariff and quota-free access to Pakistani products entering the EU.

To some degree, Pakistan's domestic cotton quality suffers from a lack of rigor along the value chain. Additionally, most production is medium staple and Pakistan imports a significant quantity of long staple cotton for producing quality fabrics for the export market. Pakistan also imports medium staple cotton to augment its domestic supplies.

Trade:

Pakistan is a net importer of cotton, primarily because of strong demand for better grades of cotton for blending and for producing export-oriented quality textile products. Typical imports include upland and long staple cotton, as well as medium staple cotton, to augment domestic supplies for processing and re-export. Compared to current year's imports, Pakistan's imports during MY 2016/17 are likely to fall sharply as domestic production recovers. Imports are projected at 1.5 million 480 lb bales. Despite sizeable imports, Pakistan continues to export cotton and 2016/17 exports are forecast at 400,000 480 lb bales. 2015/16 exports are estimated at 300,000 480 lb bales and the 2014/15 estimate reflects official data.

Demand for better quality fabrics for the export market and specialized products for the domestic market are growing. Thus, Pakistan's textile industry is expected to increasingly rely on imported long staple and quality cottons to produce high quality textile products.

Table 1: Cotton Trade Statistics:

(Quantity in Metric

Tons)

MONTH/YEAR	IMPORTS			EXPORTS		
	MY 2013/14	MY 2014/15	MY 2015/16	MY 2013/14	MY 2014/15	MY 2015/16
August	9,022	7,314	7,546	14,031	9,461	12,679
September	8,691	5,661	3,429	17,638	19,070	24,618
October	9,306	7,133	7,831	8,506	15,838	9,073
November	9,904	13,529	62,585	16,684	16,018	1,406
December	24,403	7,166	97,050	15,956	12,222	1,858
January	62,615	12,537	65,483	8,933	14,346	1,551
February	47,233	17,540	66,976	5,406	5,282	519
March	35,762	30,337	-	9,912	2,729	-
April	18,153	25,545	-	7,560	2,261	-
May	10,570	23,212	-	4,080	1,221	-
June	15,197	21,608	-	719	558	-
July	6,263	20,315	-	1,851	4,003	-
TOTAL	257,119	191,897	310,900	111,276	103,009	51,704

Source: Pakistan Bureau of Statistics (PBS), Government of Pakistan

Cotton Tariffs:

The Government of Pakistan follows a free trade policy for cotton with no quantitative restrictions or duties on either imports or exports.

Policy:

In February 2015, the Government of Pakistan announced its 2014-2019 Textile Policy. The Policy aims to double textile exports from \$13 billion to \$26 billion, through increased value addition, by 2019. Key features of the textile policy include budgetary support, drawback of certain local taxes and levies, duty free import of machinery, fiber diversification, product diversification, small and medium enterprise development, enactment of domestic labor laws, establishment of world textile center, and revitalization of projects like Pakistan Textile City. Thus far, the industry continues to be affected by erratic power supplies and progress towards achieving the goals outlined in the Textile Policy has reportedly been slow.

The textile sector is the largest industrial sector in Pakistan and accounts for about 40 percent of the industrial labor force and employs 10 million people. The sector also generates eight percent of Gross Domestic Product and over 50 percent of foreign exchange earnings. The integrated cotton and textile sector includes 1,000 ginneries, 425 textile mills, and 300 cottonseed crushers and oil refiners.

Production, Supply and Demand Data Statistics:

Cotton	2014/2015		2015/2016		2016/2017	
	Aug 2014		Aug 2015		Aug 2016	
Market Begin Year	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Pakistan	0	0	0	0	0	0
Area Planted	2950	2950	2800	2800	0	2700
Area Harvested	2475	2475	2835	2850	0	2300
Beginning Stocks	10600	10600	7000	7000	0	9000
Production	850	850	2300	2500	0	1500
Imports	0	0	0	0	0	0
MY Imports from U.S.	13925	13925	12135	12350	0	12800
Total Supply						

